

EXECUTIVE SECRETARIAT **ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		X		
20	D/OGI/DI		X		
21	VC/NIC		X		
(22)	ER				
SUSPENSE		Date			

Remarks Note: This was received from the NSC, not the Cabinet Office or the Economic Policy Council. Similarly, we have not been officially advised of the 23 May meeting.

To 19: Although our input in this process has not been solicited, it would seem the intended actions/objectives are ones wherein intelligence can make a meaningful input to policy decisions.

Executive Secretary
22 May 1985
Date

STAT

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THE WHITE HOUSE
WASHINGTON

May 21, 1985

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23 May 85
Agri Export Enhancement

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and Paper for the May 23 Meeting

The agenda and paper for the May 23 meeting of the Economic Policy Council are attached. The meeting is scheduled for 10:30 a.m. in the Roosevelt Room.

The Council will consider guidelines for the Agricultural Export Enhancement Program. A Working Group, established by the Council at its May 16 meeting and chaired by the Department of the Treasury, has developed the attached paper.

Attachment



1-300B

THE WHITE HOUSE
WASHINGTON

ECONOMIC POLICY COUNCIL

May 23, 1985

10:30 a.m.

Roosevelt Room

AGENDA

1. Agricultural Export Enhancement Program

THE WHITE HOUSE

WASHINGTON

May 21, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER *RBP*

SUBJECT: Guidelines for the Agricultural Export
Enhancement Program

At its May 16, 1985 meeting, the Economic Policy Council approved establishing an interagency Working Group including representatives from the Departments of the Treasury, State, Agriculture, and Commerce, the Office of the U.S. Trade Representative, the Office of Management and Budget, the Office of Policy Development, and the Council of Economic Advisers, to develop guidelines for the recently announced agricultural export enhancement program.

The Council expressed a desire to consider the issue as soon as possible. The Working Group, chaired by the Department of the Treasury, met on Friday, May 17, and has produced the attached paper for the Council's consideration of this issue.

The paper outlines the objectives of the program, some suggested criteria, and a proposed review process for treating individual sales on a case-by-case basis. The paper also discusses ways of achieving budget neutrality in an export PIK program and details U.S. agricultural exports over the 1970-1985 period.

Finally, the paper includes three examples of export enhancement proposals to serve as the basis for understanding how the program might work.

Because of the short time frame, departments and agencies have not had an opportunity to comment on the paper.

Attachment

INTRODUCTION: U.S. agricultural exports have declined substantially from the 1981 record level of 164 million tons valued at \$44 billion. Current estimates indicate that 1985 exports may fall to 127 million tons valued at \$30 billion -- nearly a 25 percent loss of overseas markets. In 1980, the U.S. supplied nearly 60 percent of the world's agricultural import needs. This year, we will supply less than 45 percent.

To reach a compromise with key farm senators on a budget package, the Administration has committed up to \$2 billion in the asset value of CCC owned commodities over the next three years for an "export enhancement" program. It was agreed that the program would be targeted on specific markets with specific commodities and not be across the board.

OBJECTIVES:

- Increase U.S. farm products exports. Encourage trading partners to begin serious negotiation on agricultural trade problems.
- Gain support from Congress for a market oriented farm bill.

CRITERIA: Each export expansion proposal should meet the following criteria:

Additionality: Increase U.S. agricultural export sales above what would have occurred in the absence of a program.

Targeted: Each proposal will be targeted on specific market opportunities, especially those that challenge competitors who subsidize their exports.

Cost Effective: Should result in a net plus to the overall economy.

Budget Neutral: The program should not in total displace commercial sales of any CCC-supported commodity and thereby not increase budget outlays.

IMPLEMENTATION:

Interagency Review Process: Each proposal will be country and commodity specific, with detailed analysis of program costs and benefits as well as market impact. Proposals will be reviewed by a working group of the Economic Policy Council. Three such proposals are attached as examples. The interagency review process will insure that the criteria are satisfied.

Proposal Confidentiality: It is essential that the specifics and the tactics of the program not be telegraphed to the competition.

Likely Export Proposals: Initiatives are expected to fall into three categories: 1) High additionality with very positive cost/benefit ratios; 2) reduced additionality with marginal cost/benefit ratios and with some displacement of domestic sales and/or non-subsidizing exporters; and 3) little or no additionality with a net negative cost.

A preliminary analysis of likely proposals indicates that most initiatives proposed will fall in categories 2 or 3. Category 1 possibilities appear limited to perhaps \$200 million of bonus commodities and would include wheat flour to Egypt and poultry to the Middle East.

Achieving Budget Neutrality in an Export PIK

To produce no increase to the budget when implementing an export PIK, we must ensure that commercial sales are not displaced or, if there is displacement, it is offset by additional new commercial sales.

Case 1: When total commercial sales are increased (budget savings).

o Example:

A country bought \$10M of wheat last year. This year, we agree to give the country \$1M of wheat free if it buys another \$2M worth above its previous amount of \$10M. Total country consumption then becomes \$13M, \$12M of which is in commercial sales of which \$2M is additional. This reduces the U.S. surplus and decreases CCC outlays.

Case 2: When total commercial sales are displaced (budget increase).

o Example:

A country bought \$10M of wheat last year. This year, we must give the country \$1M worth of wheat to ensure that it buys \$9M worth. Total consumption stayed the same -- \$10M. However, commercial sales were reduced by \$1M (displaced by free CCC stocks). This increases the U.S. surplus and increases CCC outlays.

Case 3: When total commercial sales are kept equal (budget neutral).

o Option A:

CCC PIK stocks are used for all new consumption. Example: A country bought \$10M of wheat last year. This year, we give the country \$1M worth of free CCC wheat to ensure that it buys the \$10M again (for total country use of \$11M. No commercial market additionality was created, but budget neutrality was achieved.

o Option B:

CCC PIK stocks leverage some additional commercial sales and displace others, netting to 50/50. Example: A country bought \$10M of wheat and \$10M of corn last year. We give the country \$10M worth of CCC corn to ensure that it buys \$20M worth of wheat. Commercial corn sales are displaced by PIK, but an equal dollar amount of new commercial wheat sales are made, netting to 50% displacement and 50% additionality; hence, budget neutrality.

FACT SHEET ON U.S. AGRICULTURAL EXPORTS (MILLION METRIC TONS)

TOTAL U.S. EXPORTS

	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1985</u>
VOLUME (MMT)	63	114	164	127
VALUE (BILLION \$)	8	23	44	- 30

U.S. SHARE OF WORLD MARKET

WHEAT	36%	47%	46%	33%
FEEDGRAINS	4.2%	61%	72%	55%
RICE	21%	28%	25%	16%
COTTON	2.3%	17%	40%	24%
SOY COMPLEX	8.2%	68%	59%	52%
TOTAL	49.7%	54%	59%	43%

U.S. AND COMPETITOR EXPORTS

WHEAT

U.S.	19.9	31.5	38.0	32.0
EC	5.7	9.5	9.6	17.0
AUSTRALIA	9.5	7.9	14.9	15.2
CANADA	11.5	12.1	15.0	19.0
ARGENTINA	1.6	3.2	4.7	8.3
OTHERS	3.6	2.3	0.4	5.5
Total	54.8	66.5	82.6	97.0

FEEDGRAINS

U.S.	19.4	46.3	72.0	51.8
EC	4.1	5.0	5.2	7.8
ARGENTINA	7.6	5.4	6.6	11.7
THAILAND	1.8	2.6	2.3	3.3
OTHERS	13.4	17.1	13.9	19.6
Total	46.3	76.4	100.0	94.2

SOYBEAN/MEAL

U.S.	15.5	15.4	25.9	23.5
BRAZIL	0.9	7.0	9.5	10.6
ARGENTINA	0.0	0.2	3.1	6.2
OTHERS	1.6	2.5	4.8	3.2
Total	18.0	25.1	43.3	43.5

EXPORT ENHANCEMENT PROPOSAL
Poultry Exports to Egypt

PROPOSAL:

Provide CCC corn stocks to U.S. producers to enable them to sell 50,000 tons of whole broilers and poultry parts to Egypt at competitive prices. The average rate of subsidization would be about \$250 per ton of poultry.

IMPLEMENTATION:

The exact quantity of corn made available from CCC stocks would be determined on a competitive bid basis. Upon acceptance, the contract would be finalized and the corn would be made available to the exporter under very tight control. In no case would we give the exporter more corn than it would take to produce the poultry for export.

ADDITIONALITY:

There would be 100% additionality in the short to medium term as the U.S. sale displaced Brazilian and EC poultry sales to Egypt. Within six months, however, a similar concessional sale to the Far East would be required to avert displacement of poultry parts from Brazil and the EC into our markets there.

TARGETED COMPETITORS:

The EC uses export restitutions and some member states have subsidized loans for capital construction. We are unable to verify the use of export subsidies by Brazil, but Brazilian exports have been very competitive with subsidized EC exports.

COST/BENEFIT ANALYSIS:

Based on current calculations, it would take 129,000 tons of corn to move 50,000 tons of poultry to Egypt. This corn has a net asset value to CCC of \$16.5 million. The additionality of 50,000 tons of exports of poultry would yield \$1.4 million in increased tax revenue, \$1.7 million in storage savings to the CCC, and indirect benefits to the economy valued at \$86.7 million. Thus, the cost benefit ratio is 5.5:1.

IMPACT ON NON-SUBSIDIZED SUPPLIERS:

This sale would displace Brazil's exports as well as the EC's.

IMPACT ON U.S. DOMESTIC PRICES:

An export sale of this size would have little or no impact on domestic prices and availability. The amount of the corn subsidy would equal the amount of corn needed to produce the product. Fifty-thousand tons of broilers is less than one percent of U.S. broiler production.

WORLD MARKET SETTING:

World trade in poultry meat exceeds 1.2 million tons annually. Egypt accounts for fifteen percent of world poultry meat imports. U.S. sale of 50,000 tons of poultry meat would be four percent of world trade and fifty percent of Egyptian imports. ~~Our assumption is that a~~ 50,000 ton sale to Egypt would displace primarily Brazilian poultry and result in a six-month net increase in U.S. poultry exports and a six-month decline in Brazilian exports.

TARGETED MARKETS:

Egypt is a large but volatile market for poultry, with 1985 imports expected to be in excess of 100,000 tons. Brazil currently dominates the market with about a two-thirds share; the EC has about one quarter, and the remainder is covered by the U.S., Hungary and small residual suppliers.

**Known Egyptian Imports of Frozen Poultry
Derived from Available Exporter Data
Metric Tons**

	1979	1980	1981	1982	1983	1984 preliminary
Brazil	3,170	6,350	45,016	34,165	46,978	50,000 a/
EC-10	1,489	12,188	5,666	3,539	17,738	5,675 b/
U.S.	14,496	47,060	63,426	2,268	8,047	6,272
Hungary	0	0	0	0	0	5,000 a/
Israel	0	0	252	4	n/a	n/a
Cyprus	1	0	1	1	n/a	n/a
Canada	22	151	50	0	n/a	n/a
Kuwait	0	0	20	0	n/a	n/a
Sweden	50	800	0	0	n/a	n/a
Austria	119	45	0	0	n/a	n/a
Uruguay	47	0	0	0	n/a	n/a
Total Known	19,394	66,603	116,490	39,977	72,763	n/a

Sources: United Nations data, CACEX/DEPEC, CISI/NIMEXE, U.S. Census Exports

a/ Estimated based on trade reports of Hungarian and Brazilian sales.

b/ Preliminary.

EXPORT ENHANCEMENT PROGRAM

Flour to Egypt

PROPOSAL:

To export 600,000 tons of wheat flour (800,000 tons grain equivalent) to Egypt, using CCC wheat as a bonus to U.S. flour exporters to displace subsidized EC flour. It is estimated that an effective rate of subsidization of about \$100-120/ton is necessary to make U.S. flour competitive in the Egyptian market. -

IMPLEMENTATION:

In order for U.S. wheat flour to be competitively priced with EC flour in Egypt, a bonus of CCC wheat of up to 35 bushels for each ton of flour exported is needed. U.S. flour exporters will competitively bid to CCC for the amount of wheat needed as bonus to execute commercial sales. It is estimated that the maximum amount of CCC wheat stocks required will be 21 million bushels.

ADDITIONALITY:

An estimated 600,000 tons of U.S. wheat flour is expected to displace an equivalent amount EC flour in Egypt. It is unlikely that the displaced EC flour will find other markets, but EC wheat exports could increase, especially to the Soviet Union, thereby displacing wheat exports from other exporters including the U.S. The net potential gain in total U.S. wheat exports to all destinations is thus estimated at 264,000-366,000 tons.

TARGETED COMPETITOR:

The European Community

COST/BENEFIT ANALYSIS:

This proposal will result in a net drawdown of 21 million bushels (600,000 tons) of CCC wheat stocks, valued at \$95 million. The net additional exports of 264,000 tons, valued at \$53 million, are expected to generate an additional \$1.6 million of tax revenues. Storage savings are estimated at \$7.2 million. In addition, these sales are expected to benefit the economy in GNP growth by \$95.4 million.

IMPACT ON NON-SUBSIDIZING SUPPLIERS:

Little, since the United States and the European Community supply all of Egypt's annual flour requirements. Assuming that somewhere between 264,000 and 366,000 tons of additional EC wheat goes into third country markets, the impact would be mainly on the United States, as a residual supplier, rather than other countries.

IMPACT ON U.S. PRICES:

There is expected to be no impact on domestic U.S. prices of wheat or flour. However, the additional millfeed generated from this program will need to be marketed domestically, and may lower annual feed ingredient prices somewhat.

WORLD MARKET SETTING:

World wheat flour trade has averaged 7 million tons (grain equivalent) over the past 5 years. This sale represents 11% of total world trade. The U.S., EC, and Canada are the major exporters, with the EC by far the largest, representing 54% of world trade, and the U.S. 24%.

TARGETED MARKET:

Egypt, representing the single largest flour market in the world, has annual consumption requirements of around 1.7-1.8 million tons. Other than under Public Law 480, the United States does not supply any commercial flour to Egypt. This sale would account for 44% of the Egyptian flour market. Egypt's commercial flour purchases have come exclusively from the European Community, where freight savings and export restitutions (subsidies) enable flour to be sold at much lower prices than those offered by the United States.

EGYPTIAN WHEAT FLOUR 1/ IMPORTS
JULY/JUNE YEARS

ORIGIN	1979/80	1980/81	1981/82	1982/83	1983/84
U.S.	568	686	637	1.142	1.421
EC	635	1.554	1.007	684	1.135
CANADA	---	7	---	1	---
OTHER	---	---	---	---	---
TOTAL	1.203	2.246	1.644	1.827	2.556

1/ GRAIN EQUIVALENT

EXPORT ENHANCEMENT PROGRAM

Wheat to USSR

PROPOSAL:

Provide CCC wheat stocks to exporters, to enable them to sell extra U.S. wheat to displace subsidized EC wheat in the USSR market. Effective rate of subsidization is estimated at about \$55/ton.

IMPLEMENTATION:

Eligible shipment period would be between August 1 and November 30 to avoid disruption or displacement of unsubsidized supplies from new crop southern hemisphere origins which begin to be available in December. Only sales certified to be above the LTA minimum would be eligible.

ADDITIONALITY:

The net gain in total U.S. grain exports to all destinations is estimated at 3.7 MMT from an estimated 5 MMT increase in U.S. exports to the USSR. For our USSR trade, the 5 MMT is expected to be 100 percent additional since Soviet crop prospects are good and the Soviets are expected to purchase no more than the LTA minimum. However, 1.3 MMT would be offset to the extent that additional EC grain is forced onto third country markets.

TARGETED COMPETITOR:

The target competitor for this program is the EC, whose subsidized wheat and barley exports have recently made large new in-roads into the Soviet grain market, climbing to almost 8 MMT in the past 12 months, compared with a previous record of about 4 MMT.

COST/BENEFIT ANALYSIS:

The actual export value of the 5 MMT exported under this program is estimated at \$425 million (5 MMT at \$85 per MMT). CCC stocks would be reduced by 2.5 MMT wheat, valued at \$395 million. The net additional exports of 3.7 MMT, valued at \$314 million, are expected to generate an additional \$9.4 million in tax revenues. Storage savings are estimated at \$30 million. In addition, these sales are expected to benefit the economy in GNP growth by \$566 million (using a 1.8 multiplier).

**IMPACT ON NON-
SUBSIDIZED SUPPLIERS:**

Canada, Australia, and Argentina would be alarmed and might complain about potential displacement, but such displacement should prove minimal. Argentina's current supply has been marketed, and the Australian program with the USSR for the period through November 30 is already committed. Canada's trade is protected by its LTA. To the extent that displaced EC wheat goes instead to third countries, the offsetting losses will accrue mainly to the U.S. as the residual supplier.

**IMPACT ON U.S.
DOMESTIC PRICES:**

It is estimated that there would be no net impact on U.S. domestic grain prices, since free market supplies would not be affected.

WORLD MARKET SETTING:

Wheat supplies extremely burdensome, especially in the U.S., and competitive conditions are unusually severe; world import needs are reduced in 1985/86, and the U.S. share is declining precipitiously.

TARGETED MARKETS:

The USSR is the largest grain import market in the world, they account for 25% of global grain trade. The USSR represents the best potential for realizing additional U.S. grain exports.